

PROGRAM TO FIGHT POVERTY AND STRENGTHEN LOCAL CAPACITY

(NI-0108)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Emergency Social Investment Fund (FISE)	
Amount and source:	IDB: (FSO)	US\$50,000,000
	Local:	US\$ 5,645,000
	Total:	US\$55,645,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period	10 years
	Commitment period:	3 years ¹
	Disbursement period:	3.5 years ²
	Interest rate:	1% per annum for first 10 years, and 2% thereafter
	Inspection and supervision:	1% of loan amount
Objectives:	Credit fee:	0.5% per annum on undisbursed balance
	The main objective of the program is to help fight poverty by providing funding for basic social infrastructure through delegation and participation that improves access by the poor. The program's specific objectives are: (i) to strengthen community and local government capacity for implementing and maintaining basic social infrastructure; and (ii) to help FISE become more efficient and more effective in delegating its project cycle, ³ and in defining its role in implementing the enhanced poverty reduction strategy (EPRS).	
Description:	The program will finance basic social infrastructure aimed at improving living standards in poor communities. The program will	

¹ Under no circumstances may the commitment or disbursement periods, or any extension thereof, extend beyond the date of expiration of FISE (currently December 31, 2004).

² *Idem.*

³ Delegation means granting local governments decision-making and resource-management responsibilities in the project cycle financed by FISE.

also help FISE to enhance its impact on poverty reduction, by improving the way in which basic social infrastructure projects are executed and maintained. The investments in schools, health centers, and water supply and sanitation systems are the program's key EPRS priorities.

In addition, the proposed operation will give continuity to the activities of another operation currently under way to help FISE in its efforts to delegate its project cycle. In particular, it will support FISE's 2001-2004 investment program, which proposes raising the number of municipalities managing both project execution and FISE financial resources from nine to 50, and the number carrying out participatory micro-planning (PMP) processes from 60 to 100.

The funds available for local investments will play a dual role. First, they will finance viable local projects with satisfactory social rates of return. Second, they will provide incentives for local governments to adopt institutional practices which they would otherwise not do.

The program will have three components: (i) investments in social infrastructure and community training; (ii) strengthening of local capacity; and (iii) FISE institutional development.

Component 1. Investments in social infrastructure and community training (US\$45 million)

This component will finance three types of activity: (i) implementation of participatory micro-planning processes; (ii) investments in priority projects identified in the PMP at the municipal level and included in municipal investment plans (MIPs); and (iii) a strengthening of community groups to enable them to participate in PMP processes and activities related to social audits and maintenance of completed works.

Participatory micro-planning processes (PMP). The PMP, to be developed in municipalities, will be spurred and coordinated by local governments through their MTUs. FISE will lend technical and financial support to the MTUs throughout this process. The PMP will be carried out according to procedures that ensure participation by women and other vulnerable groups in identifying projects and according them priority.

FISE will assist with the implementation of the PMP in approximately 100 municipalities, of which the Bank program will finance approximately 40. The outcome of the PMP will be a municipal investment plan that identifies potential projects for financing by FISE as well as other sources of financing. Each MIP will have a three-year

horizon and be reviewed annually in order to update on a participatory basis municipal priorities and the programming of available financial resources.

Investments. Investment resources will be allocated using the FISE poverty map. The PMP process will include mechanisms to enable local governments, community leaders, delegates from line ministries and FISE representatives to work together with a view to targeting resources to the poorest population groups in each municipality.

As an incentive for introducing best practices, 70% of funds available for investment at the FISE level will be allocated to municipalities on the basis of the poverty map. The remaining 30% will be allocated to municipalities by FISE, based on the introduction and use by local governments of new practices that involve them in the fight against poverty.

All the projects to be financed will be the outcome of PMP processes and will be included in MIPs. In the case of investment projects included in plans that are not the outcome of processes based on the PMP manual, FISE will validate the mechanisms used to ensure consistency with those presented in the manual. In municipalities that have not implemented participatory micro-planning, project funding will be based on participatory programming processes carried out by local governments. In such cases, FISE will define the criteria to be used to facilitate and also validate such participatory programming exercises.

The project types on the FISE menu to be executed without prior Bank approval include the repair, expansion and purchase of equipment and materials for schools and health centers, water and sanitation systems, and social assistance and environmental projects.

Municipal projects such as markets and slaughterhouses which are usually financed under lines of credit may be financed out of program resources only in exceptional cases. When this occurs, FISE will be required to submit to the Bank the criteria used in justifying financing for a project of this kind.

Based on experience with the PMP and the definition of the MIPs, FISE may submit to the Bank for consideration new types of projects to be added to the menu. In this case, FISE will have sufficient funds to hire specialists to draw up the technical specifications and other relevant information.

Under the new Operating Regulations, FISE will be required to evaluate all of the projects to ensure their feasibility, taking into

account technical, financial, economic, and environmental considerations. In addition, FISE will assess the projects from a gender perspective. The new Operating Regulations will also impose a ceiling, in an amount equivalent to US\$1 million, on the financing for each project.

Community training. Community groups and project committees will be strengthened in project administration and management through training and technical assistance so that they can take part in participatory micro-planning; the execution, operation and maintenance of civil works; and social audits. Training is intended to strengthen the gender dimension and participation by women in these processes.

Component 2. Local capacity strengthening (US\$2.8 million)

This component will strengthen local technical capabilities. FISE will increase the number of Level 1 municipalities from nine to approximately 50, of which about 20 will be financed under the present program. To ensure that the proposed increase materializes, program resources will be used to finance the strengthening of the MTUs in the municipal structure and fees will be covered on a declining basis over a three-year period so that local governments are able to assume the entire cost by the end of the period. To strengthen the on-hands learning process, participating Level 1 municipalities will be permitted to manage projects valued at up to the equivalent of US\$1 million.

FISE will expand coverage amongst Level 2 municipalities from 16 to approximately 50, of which about 20 will be funded under the program. Level 1 and level 2 municipalities will receive technical assistance and training: (i) to strengthen them in project administration, preparation, execution, and supervision; (ii) to raise their capacity to promote more effective inter-agency coordination at the local level; (iii) to put in place systems of costs, bidding, bid awards and contracting, and project monitoring and the related training; (iv) to develop mechanisms for monitoring and updating MIPs; (v) to strengthen disbursement systems, accountability, and control processes relating to management of the Preventive Maintenance Fund (PMF); (vi) to encourage the use of micro-targeting techniques at the municipal level; and (vii) to implement the environmental management system (SISGA).

FISE will set up a municipal rating and graduation system with performance indicators to gauge such factors as progress made in municipal capacity in the areas of: (i) financial management, (ii) procurement; (iii) self-generated funding, (iv) PMP development and MIP updating; and (v) promotion of citizen participation.

In addition, the program will finance training for MTUs, NGOs and other local actors in development issues such as gender; environment; land-use planning and natural disaster mitigation; poverty; social management, ethnic diversity and poverty; and training for contractors (formulators, executing agencies, facilitators and supervisors) in project cycle technical standards. Also, financing will be provided for study trips and sharing of experiences for MTU personnel.

It will also make resources available to develop technical expertise so that local governments can cofinance technical assistance aimed at strengthening its institutional framework and developing technical capacities in project cycle administration and management.

Component 3. FISE institutional development (US\$1.2 million)

This component will finance technical assistance and training for: (i) developing FISE organization and structure to ensure execution of the proposed program; (ii) implementing an interagency coordination mechanism at the central and local levels to guarantee the sustainability and impact of the investment; (iii) preparing inputs for policy dialogue on poverty and development issues; and (iv) drafting a proposal on the institutional future of FISE and its role in implementing the EPRS. This proposal will be prepared some time in 2001, and in 2002 the borrower will outline an institutional strategy based on this proposal. The progress made in defining this strategy and taking decisions on it will be evaluated at the annual meetings.

Management. In addition to financing the three program components, the financing will be used to defray on a declining basis during program execution the costs incurred by FISE in hiring individual long-term experts. The initial report which will be submitted to the Bank will include a list of experts whose fees will be financed during year one of the program, and this number is expected to have diminished by 25% upon completion of the program. The proposal on FISE's institutional future will set out the government's strategy for providing administrative financing in line with the role that the country will assign to FISE. Financing will also be used to cover the cost of the annual evaluations and the program audits.

The Bank's country and sector strategy:

The program is consistent with the Bank's strategy of supporting the Nicaraguan Government's poverty reduction efforts. The Bank's activities in this area are focused on support for the design and implementation of the EPRS. The program is important because basic social infrastructure it furnishes to poor communities is a key element in poverty reduction. The program is also linked to the Bank's objective of enhancing efficiency in the use of public resources. This

will be achieved by increasing community and local government involvement and targeting resources towards the poorest sectors in each municipality. The strengthening of interagency coordination promoted by the program at the national and local level, as well as the training and technical assistance afforded to communities and municipalities in social audits and accountability, are in line with the Bank's strategy.

This program is also expected to put the Bank in a position to take part in discussions on the institutional future of FISE and its role in implementing the EPRS. The program will help FISE become more efficient and more effective, while introducing organizational and financial changes to make it sustainable in the long run.

This program reflects the importance placed by the Bank on developing and strengthening interagency coordination between public agencies. The program will support a review of the standards and procedures of coordination between FISE and line ministries in the areas of investment and maintenance. It will also finance activities needed to achieve coordination agreements between FISE and other locally executed programs.

The program will support coordination between FISE and INIFOM through a review of the PMP manual, the delivery of technical assistance services, and the development of policies on such issues as community participation in municipal planning and the relationship between decentralization and poverty reduction. To facilitate closer collaboration between FISE and INIFOM, the Bank is preparing a technical-cooperation operation to strengthen INIFOM's capacity to provide leadership to the municipal development process.

**Environmental
and social
review:**

The program is designed to increase local participation and accountability for investments in social infrastructure and poverty reduction. The PMP process will respond more effectively to the priorities of poor people – both men and women. It will train local actors in gender issues and will offer support for a review of FISE manuals to incorporate the gender dimension. It will also continue to train women as members of the different committees and will look for opportunities to involve them in the project cycle. PMP processes being carried out for the Atlantic Coast local development program (NI-0107) will also be included in FISE manuals.

The program will provide funding for small-scale infrastructure projects benefiting poor communities. The FISE environmental management system (SISGA) ensures that projects satisfy environmental requirements. Training and technical assistance for transferring FISE procedures to the MTUs will also cover the SISGA.

The program will support the development of expertise in land-use planning and natural disaster mitigation at the municipal level, which, over time, should result in greater compliance with environmental standards in the design, location and operation of community infrastructure.

Benefits:

The program will finance social infrastructure works and basic social services targeted to the poorest sectors of the Nicaraguan population. By improving access to education, healthcare, water supply and sanitation, these investments will have a direct impact on the living conditions of a substantial number of people, especially those living in rural areas.

The program's benefits at the local level will include opportunities for communities and municipal governments to participate jointly in identifying priority local investments. This will ensure more efficient use of public resources.

The components of the program contain several other elements that will help increase participation by women. Activities will largely continue the efforts of an operation currently under way to incorporate the gender perspective and increase women's participation in the work of FISE. By delegating project-cycle processes more extensively, FISE will ensure the capacity of local actors to promote gender equality and participation by women. The local actors will also begin to receive training on ethnic diversity as a means of encouraging sectors that have traditionally been left out of the decision-making process to be given a say in the use of public funds.

The program will also provide institutional support to FISE. A key aspect of the program is helping the organization to draft a proposal for its future institutional role within the EPRS. The Bank will watch this process closely through its annual monitoring of the program.

Risks:

The operation has been designed in a participatory fashion, with involvement by municipal authorities. The present authorities are due to step down in early 2001, at which time a new administration will be installed. The new authorities are expected to display the same levels of commitment to the program, as the present incumbents.

The shortage of technically skilled workers in local government is a major constraint that could affect the success of the program. The lack of a municipal career civil service, and the meager funds available to local governments has resulted in few professional opportunities in local government. A challenge facing the municipalities relates to the incentives needed to attract and retain qualified professional staff to work in the MTUs. The delegation of the project cycle and training

related to this activity will foster the development of a local market for different professions.

Municipal governments also lack financial resources. The sustainability of the MTUs will depend on more than each municipal government's capacity to generate greater income on its own. It will also depend on its ability to generate levels of investment that justify the hiring of technical staff. The program seeks to encourage the use of best practices in management, and to introduce ways to help municipalities increase their revenues.

Special contractual clauses:

Precedent to the first disbursement

- a. Presentation to the Bank of the new participatory micro-planning manual, agreed on in conjunction with INIFOM, including the minimum criteria to be applied to the Atlantic Coast project (paragraph 2.12).
- b. Evidence that the agreement between the Government of Nicaragua and FISE on funds transfer and program implementation is in effect (paragraph 3.1).
- c. Introduction of the new FISE Operating Regulations, previously agreed on with the Bank (paragraph 3.11).
- d. Presentation to the Bank of a detailed description of the process to be used, including the role to be played by different institutions, in drafting a proposal on the future role of FISE (paragraph 3.20).

Other conditions

- a. Introduction of Operating Regulations for the development of technical expertise to strengthen the institutional framework and technical development of municipal capacity will be an additional condition precedent to disbursement of funds earmarked for these activities (paragraph 2.27).
- b. The loan contract will contain other standard conditions, relating, among other things, to monitoring and evaluation, audits, maintenance, procurement and the contracting of services.

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704) (paragraphs 4.4, 4.5).

This operation also qualifies as a poverty-targeted investment (PTI) (paragraphs 4.1 to 4.3, 4.15). The borrower will be using the 10 percentage points in additional financing (paragraph 2.38).

Exceptions to Bank policy:

None.

Procurement:

All contracting will be carried out in accordance with standard Bank policies. International competitive bidding will be required for contracts valued at over US\$1 million in the case of construction works, US\$250,000 in the case of goods and related services, and US\$200,000 in the case of consulting services. Civil works, goods and related services, and consulting services in lesser amounts will be subject to the procurement modalities described below, in accordance with the State Procurement Act (Law 323), and will be supervised on an ex post basis by the Bank in accordance with its policy in this area:

	MODALITY		
	Civil works	Goods and services	Consulting services
Competitive bidding	Between US\$195,001 and US\$1 million	Between US\$195,001 and US\$250,000	Between US\$195,001 and US\$200,000
Bidding by registered suppliers	Between US\$55,001 and US\$195,000	Between US\$55,001 and US\$195,000	Between US\$55,001 and US\$195,000
Limited bidding	Between US\$8,001 and US\$55,000	Between US\$8,001 and US\$55,000	Between US\$8,001 and US\$55,000
Purchase subject to quote	US\$8,000 or less	US\$8,000 or less	US\$8,000 or less